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Good afternoon. I'm Maria Matesanz and I manage the team at Moody's that rates debt issued by US airports. Thank you for inviting me to speak today. It's a pleasure to be here with you, Chairman Mica, and the House Aviation Subcommittee members.

Moody's Investors Service is the oldest bond rating agency in the world. We have been rating bonds since 1909. Today, we have more than 1,000 analysts in 19 countries around the world. Our products include our credit rating opinions, which are publicly disseminated via press release and made freely available on our website, as well as research and special reports about debt issuers and their industries that reach more than 2,600 institutions and 16,500 users around the globe. Our ratings and analysis cover approximately 10,000 corporations and financial institutions, more than 20,000 municipal debt issuers, over 12,000 structured finance transactions, and 100 sovereign issuers. Additional information on the company is available on our website: www.moodys.com.

In Moody's view, the main and proper role of credit ratings is to help enhance transparency and efficiency in debt capital markets by reducing information asymmetry between borrowers and lenders. We believe that this benefits the market by enhancing investor confidence and allowing borrowers to have broader access to funds.

Moody's does this by publishing forward-looking rating opinions publicly, freely and broadly, and by publishing credit research about debt securities and their issuers. Our credit ratings are opinions about the future probability of full and timely repayment of debt obligations, such as bonds, notes and commercial paper. Our opinions are communicated to the market through a symbol system originated almost 100 years ago, which rank-orders relative credit risk on a scale with 9 broad categories ranging from Aaa to C. Most of the broad rating categories are further refined with numerical indicators, from 1 to 3.

My comments today will focus on the impact of airline bankruptcies on US airports. Moody's has ratings on 166 debt issues at 114 publicly-owned US airports. The median rating is A2, with ratings ranging from a high of Aa2 to a low of Caa1. Most airport debt is secured by a pledge of general airport revenues, which includes airline charges as well as diverse concession revenues, such as parking, rental car fees and food and beverage concessions. The only two ratings below investment grade (Baa3) are for standalone project financings. This contrasts sharply with the median rating of B3 for airlines. Airlines have had a very unprofitable number of years as a result of extremely low air fares, high labor costs and increasing fuel costs.

The combination of low fares and the growth in capacity by both the legacy airlines and the low-cost carriers has resulted in very strong passenger and revenue growth at airports, and a stable outlook for airport sector issuers. In most markets, passenger volume has now exceeded pre-9//11 peak levels and many airports are experiencing flight delays due to capacity constraints.

In Moody's opinion, credit quality in the airport sector has stabilized due to the maintenance of solid liquidity levels, growth in non-airline concession revenues, management's control over operating and capital budgets, and the strength of the underlying origin and destination (O&D) service area economies. Moody's analysis focuses on these factors as key explanatory variables for the increasing gap between the median airport and the median airline rating.

Air transportation remains an essential service in our economy and Moody's believes that because of the difficulty in building new airports and the long lead time needed for environmental approvals, existing airports will generally be able to pass justifiable operating and capital costs onto airlines and passengers despite financial turmoil in the airline industry.

Recent experience indicates that hub airports may remain financially and operationally stable despite the bankruptcy of the dominant airline tenant. Examples include Chicago O'Hare and Denver (United) and Charlotte and Philadelphia (US Airways) and now of course Atlanta (Delta), and Detroit (Northwest).

Given the strategic importance of hub facilities for legacy carriers and their large investments in local facilities, certain hubs may even benefit from route restructurings by their dominant carrier. For example, when Delta chose to 'de-emphasize' its Dallas/Fort Worth (rated A1) hub last year, Atlanta Hartsfield-Jackson (rated A1) saw a significant increase in its connecting traffic. Likewise, when American scaled back its hub at Lambert-St. Louis (rated Baa1), Chicago O'Hare (rated A1) saw an increase in connecting traffic. We define a hub as having more than 30% connecting passengers.

With four of the six legacy airlines in the US now operating in bankruptcy, our focus is on identifying those airports that may suffer financial stress as a result of cuts in service, reductions in passengers and revenues, as well as those airports that may suffer a rejection of key airline leases.

Airlines operating in bankruptcy generally continue to pay airports' rates and charges and in most cases do not radically downsize their operations. These are two important offsetting factors that help buffer the impact of an airline bankruptcy on the ability to generate revenue at an airport. Our analysis will continue to weigh the credit impact of the bankruptcy filing of an airline on the ratings of its hub airports. We will also consider such credit fundamentals as the size and economic health of the origin and destination (O&D) base, the financial strength of the airport and the operating agreements for airlines at each facility.

Hub airports served by airlines in bankruptcy often have agreements that allow the airports to charge the airlines fees to recover all operating and debt expenses. These so called 'residual' agreements often include a credit for all non-airline revenues, such as parking and rental car fees and food and beverage concessions, as an offset to airline charges. While some airlines may not wish to pay increased fees, Moody's believes that the opportunity to serve many of the larger local markets and the higher fares in some of these markets would be an incentive for remaining or new carriers to increase service and/or continue to pay the agreed upon rates and charges.

While the recent bankruptcy filings of Delta and Northwest are partly the result of certain pressures common to all airlines such as high fuel costs, rising labor costs, low yields, and the aftermath of Hurricane Katrina, the circumstances surrounding each filing differ significantly and the resulting impact on airports may be different as a result. Both airlines will look to regain their long term business viability by seeking to lower their costs in a variety of areas.

Some of these, for example labor costs, are neutral to airports. Strategic decisions about route structure and capacity reductions, on the other hand, can have a significant operational and financial impact on airport credit. Airports may also be affected by the legal strategy the airlines adopt regarding their airport leases - airlines may choose to reject comparatively expensive and/or older leases, especially at airports that they are also considering for service cuts. On the other hand, and as we have seen time and again, airlines are likely to affirm other leases at airports that they deem strategically vital to their network.

We continue to focus on those airports that in our view lack one or more of the credit strengths that support the divergence in credit quality of airports and airlines. In Moody's opinion the increased risk that the airline restructuring process implies will be borne by those airports with less profitable routes, a high reliance on airline-derived revenues, a service area that is below the median in terms of generating demand for air travel, below-average liquidity levels, and limited ability to cut airport operating costs and/or scale back capital programs.

Looking at the risks and challenges ahead for airports, Moody's credit analysis will focus on answering the following questions:

- **Will increased passenger traffic stimulated by low cost carriers spur airports to expand facilities and increase costs to the airlines?**
- **How will these capacity improvements be funded?**
- **How will the FAA address capacity constraints at congested airports and what will be the impact on airport finances?**

This concludes my remarks. Thank you again for the invitation to testify today. I would be happy to respond to any questions you might have.